Municipal Pension Plan

2002

Annual Report

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Municipal Pension Plan 2002 Annual Report

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Message from the Board

The Municipal Pension Board of Trustees is pleased to present this annual report for the fiscal year ending December 31, 2002. The board is responsible for the management of the pension plan, including the administration and investment of assets.

Membership

We welcome all new members to the Municipal Pension Plan. Currently there are about 127,000 active plan members and about 39,000 retired plan members. The number of retired members is expected to continue to grow in the next three years.

Annual General Meeting

Over 300 plan members, partners and employers attended the first annual general meeting of the Municipal Pension Plan on November 2, 2002. The main location was in Vancouver, and there were live broadcasts to Cranbrook, Prince George, Nanaimo and Kelowna. The board received a positive response from members, who appreciated the forum, the presentations and the opportunity to participate.

The board extends an invitation to all plan members and stakeholders to attend the second annual general meeting on November 8, 2003. Details will be posted on the website **pensionsbc.ca** as soon as they are available.

Security of Basic Pension Benefits

The financial health of the fund and the adequacy of the contribution rates is assessed at least every three years by an independent actuary. The actuarial valuation as at December 31, 2000 indicated that the fund from which basic pension benefits are paid was financially secure. The board is looking forward to the results of the next valuation as at December 31, 2003.

While the investment performance of the past two years has been disappointing, the board takes a long-term approach to fund management and ensures the portfolio is well diversified to provide strong long-term results.

Benefits Administration

The board continues to challenge the Pension Corporation to provide high standards of service delivery to plan members, and we are pleased to report significant improvement in all service levels.

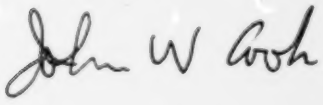
In the past year, the simplification of purchase of service rules was implemented; and the backlog of purchase of service requests was reduced. Members can now easily calculate a purchase of service cost themselves using a new Purchase of Service online estimator that is available at **pensionsbc.ca**.

Post-Retirement Group Health Benefits

This past year the provincial government made changes to health care that increased the cost of providing group health benefits for retired members of the plan. A 50% increase in premiums for MSP resulted in retired members paying at least 50% of their premium, beginning with their October 2002 pension payment.

Later in the year, the board became aware of additional anticipated government changes to PharmaCare, which will further increase the cost of providing retiree group health benefits. The board spent considerable time analyzing the situation to determine how best to provide meaningful group health benefits within the imposed funding constraints. Further changes to retiree group health benefits will take effect January 1, 2004. Details of the changes will be provided to all members, and will also be posted on the website **pensionsbc.ca**. We are working with plan partners to explore new funding options and to develop a long-term funding policy for retiree group health benefits.

It has been our experience that joint trusteeship gives you a strong voice in the running of your pension plan. We look forward to continuing to serve the Municipal Pension Plan and its members. If you would like to contact us, please use the address on the back cover of this report.



John W. Cook, Chair

Trustees as at December 31, 2002

Chair

John W. Cook

Trustee	Alternates	Appointing Body
Ken Bayne		Government and Union of British Columbia Municipalities (excluded plan member)
Dennis Blatchford	Miriam Sobrino	Health Sciences Association of British Columbia
Bryan Crossfield	Jane Lindstrom	Health Employers Association of British Columbia
Barbara Ingamells	Richard Taylor	Union of British Columbia Municipalities
Cliff Ivers	Dave Long	Municipal Employees' Pension Committee (retired plan member)
Gary Johnson	Donisa Bernardo	Municipal Employees' Pension Committee
Frank Leonard	Richard Taylor	Union of British Columbia Municipalities
Louise Mercer	John Davison	Government
Brian Northam	Koni Marrington	Council of Joint Organizations and Unions
Ed Pakos	Mark Schulz	British Columbia Professional Fire Fighters' Association and British Columbia Federation of Police Officers
Steven Polak	Tom Knowles	Hospital Employees' Union
Sharon Saunders	Fran Macdonnell	British Columbia Nurses' Union
Joe Strain	Terry Killough	British Columbia Public School Employers' Association
Lyn Vandermey	Gary Moser	Health Employers Association of British Columbia
Maria Wahl	Barry O'Neill	Canadian Union of Public Employees, British Columbia Division
Hilary Woodward	Barbara Reuther	Government

Financial and Operational Highlights

The Municipal Pension Fund holds a diversified portfolio of debt and equity investments that facilitates prudent management of risk. The investment portfolio is $14.5 billion as at December 31, 2002 (December 31, 2001 – $15.1 billion). The portfolio has decreased in value as a result of negative annual investment returns. While short-term returns may continue to be more subdued, pension plans have long investment horizons and should focus on the longer term. The five-year annualized rate of return was 4.7%.

Active membership in the Municipal Pension Plan increased by about 1.5% in 2002. There are about 127,000 active plan members and around 39,000 retired members. The number of pensions grew about 7% in 2002.

Investment Performance

	Performance Benchmarks	Actual	
	2002	2002	2001
Market Value ($ Billions)		$14.5	$15.1
Market Value Rates of Return			
Basic Account			
Annual	(4.7)%	(4.6)%	(1.4)%
Five-year Average	4.5%	4.7%	8.4%
Inflation Account			
Annual	(3.7)%	(3.6)%	(1.8)%
Five-year Average		4.9%	8.2%

Net Earned Rate of the Fund

Year	%
1998	10.4
1999	13.7
2000	11.9
2001	8.4
2002	4.7

* The net earned rate of the fund is the Basic Account five-year average.

Latest Actuarial Valuation–December 31, 2000

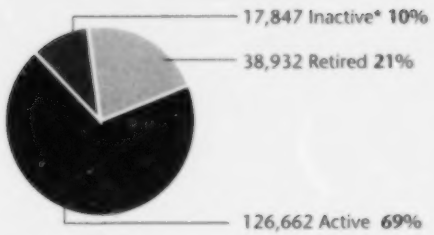
$ Millions

	Basic Pension Benefits Net Surplus (Unfunded Liability)	
	2000	1997
For Funding Purposes*	$436	($548)
Ratio of Surplus (Unfunded Liability) to Covered Payroll	9.1%	(14)%
For Accounting Purposes to December 31	$847	($297)

* Assuming contributions continue at existing rates, in effect at the valuation date. The next valuation will be as at December 31, 2003, with the results included in the 2004 annual report.

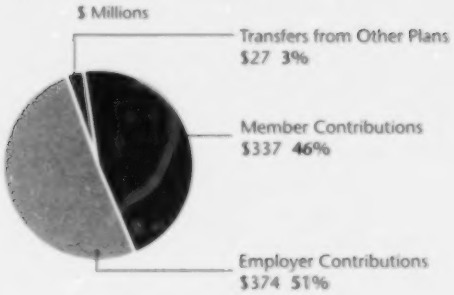
See Note 7 and Note 8 to the Financial Statements for additional explanation.

2002 Membership Profile

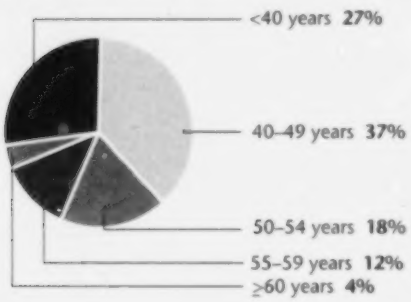


* Members no longer employed, but with money in the plan.

2002 Contribution Revenue

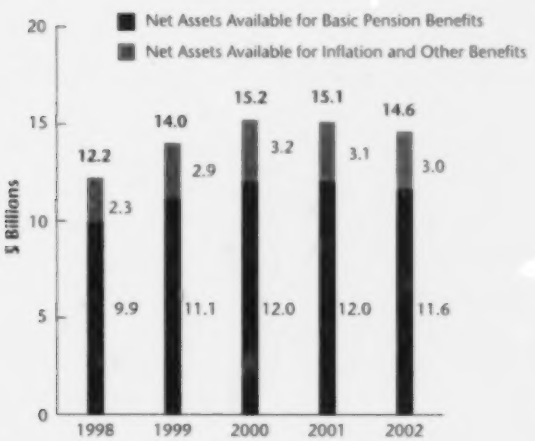


2002 Age Profile of Active Contributors



Net Assets Available for Benefits

as at December 31, 1998–2002



Five-year Summary Statement of Changes in Net Assets Available for Benefits (Unaudited)

$ Thousands

For the year ended December 31	2002	2001	2000	1999	1998
Increase (Decrease) in Assets					
Net Investment Income					
Total Investment Income (Loss)	$(649,002)	$ (182,933)	$ 1,074,640	$ 1,660,558	$1,066,410
Investment Management Costs	(21,917)	(19,832)	(18,542)	(13,401)	(12,956)
	(670,919)	(202,765)	1,056,098	1,647,157	1,053,454
Contributions					
Members'	336,863	308,057	289,345	271,831	269,599
Employers'	373,785	345,111	328,169	302,592	295,578
Transfers from Other Plans	26,555	17,637	11,748	4,656	3,198
	737,203	670,805	629,262	579,079	568,375
Total Increase in Assets	66,284	468,040	1,685,360	2,226,236	1,621,829
Decrease in Assets					
Pension Benefits	475,007	432,077	393,437	357,073	330,189
Termination Benefits	57,688	45,002	30,213	33,374	48,199
Transfers to Other Plans	58,597	13,614	11,020	1,576	1,607
Retired Member Group Benefits	51,003	39,627	34,872	30,860	27,126
Administration Costs	16,987	14,706	12,280	13,039	14,358
Total Decrease in Assets	659,282	545,026	481,822	435,922	421,479
Increase (Decrease) in Net Assets	(592,998)	(76,986)	1,203,538	1,790,314	1,200,350
Net Assets Available for Benefits at Beginning of Year	$15,144,071	$15,221,057	$14,017,519	$12,227,205	$11,026,855
Net Assets Available for Benefits at End of Year	$14,551,073	$15,144,071	$15,221,057	$14,017,519	$12,227,205
			As a Percentage of Net Assets		
Administration Costs	0.12	0.10	0.08	0.09	0.12
Investment Management Costs	0.15	0.13	0.12	0.10	0.11

Plan Governance

The partners and key stakeholders are responsible for appointing the trustees. The partners are also responsible for directing amendments to the plan, if certain conditions are met, and resolving trustee disputes. A complete listing of plan partners and stakeholders is available on the website **pensionsbc.ca/municipal/**.

The Municipal Pension Board of Trustees is responsible for the management of the pension plan, including the administration and investment of the assets. The board of trustees may amend the pension plan rules as long as changes can be funded by pension fund surpluses or are cost-neutral to the plan. Plan rule changes that result in contribution rate changes must be approved by the partners. If the actuary determines that it is necessary to increase contribution rates, the trustees must increase employer and member contribution rates equally.

The **British Columbia Pension Corporation** provides benefit administration services as an agent of the board of trustees.

The **British Columbia Investment Management Corporation** provides investment management services as an agent of the board of trustees.

Communications

Communicating with plan members is a priority of the Municipal Pension Board of Trustees. We continue to work on new communications materials to ensure all plan information is easily understood, accurate and up-to-date. Plan member newsletters, bulletins and Pensionfacts—a series of fact sheets—are regularly published. Additional information about the plan is available online at **pensionsbc.ca**.

A key initiative is the redesign of the website. When completed, it will offer a cleaner, easier interface, while allowing enhanced self-service options for plan members.

INVESTMENTS

MARKET REVIEW

One of the major roles of the board of trustees as fiduciary for the plan, is the responsibility for overseeing the investment of approximately $14.5 billion in assets for the long-term benefit of the plan and its members. The most important issue for any pension plan is long-term results, and the board's goal is to achieve consistent and steady performance over the longer term based on a disciplined approach and prudent decision-making.

The board of trustees approves the long-term asset mix policy for the investment assets and oversees the management of those assets through the board's investment management agent, the British Columbia Investment Management Corporation (bcIMC).

Diversification of investments is a key principle in the approved asset policy. Investments are held in a range of asset types (e.g., bonds, equities, real estate, etc.), industry sectors, and global markets.

Despite some good news in 2002—returns for the plan on government bonds and real estate were strong—equity markets provided disappointing results for a second year. The Toronto Stock Exchange Index (Canadian stocks) declined 12.4% in 2002, and in Canadian dollar terms, the Standard and Poor's 500 Index (U.S. stocks) declined 22.7%. These trends are reflected in the returns on the equity investments of the pension fund.

Overall for the year, the plan's Basic Account recorded a -4.6% annual return on its investment portfolio, modestly outperforming its benchmark based on market indices, of -4.7%. On a five-year basis the return for the plan's Basic Account was 4.7%.

In the short term, market expectations remain uncertain. While investment returns during the past two years have been disappointing, the board is confident that performance will improve over the long term. The board will continue in their approach to optimize returns, based on following sound money management principles and strategic asset allocation.

APPROVED BASIC INVESTMENT ASSET MIX

Strategic and short-term asset allocation targets are set by the board of trustees, within the ranges shown in the Approved Basic Account Investment Asset Mix table. Short-term, for asset mix purposes, includes government bonds with one- to five-year terms and money market funds.

Approved Basic Investment Asset Mix

Asset Class	Market Value Lower Limit (%)	Market Value Upper Limit (%)
Debt	**25**	**45**
Short-term	0	10
Mortgages	0	10
Bonds	20	40
Equity	**55**	**75**
Canadian Equities	15	30
U.S. Equities	5	20
International Equities	10	25
Real Estate	5	15
Private Placements	0	6

INVESTMENT PERFORMANCE

Net Earned Rate of the Fund

Year	%
1998	10.4
1999	13.7
2000	11.9
2001	8.4
2002	**4.7**

* The net earned rate of the fund is the Basic Account five-year average.

INVESTMENT PORTFOLIO

Investments Held as at December 31, 2002

	Market Value ($ Thousands)	Asset Mix Market Value (%)
Pooled Investment Portfolios		
Money Market	326,565	2
Canadian Bonds		
Government	2,476,250	17
Corporate	669,252	5
Long-term Bonds	601,447	4
Short-term Bonds	219,484	2
Canadian Equities		
Indexed	2,270,698	16
Actively Managed	997,130	7
U.S. Equities		
Indexed	1,281,874	9
Actively Managed	518,997	4
International Equities		
Asia	395,413	3
Europe	671,332	5
Europe, Australia and the Far East	1,097,839	8
Real Estate	1,491,581	10
Mortgages	587,395	4
Private Placements	453,967	3
Total Pooled Portfolios	**$14,059,224**	**97**
Canadian Real Return Bonds	446,340	3
Total Investments	**$14,505,564**	**100%**
2001 Comparison	$15,130,466	

For further information on the investment portfolio, visit the bcIMC website at **www.bcimc.com**.

Canadian Equities
Top 10 Holdings

Company	Market Value ($ Thousands)	% of Total
Royal Bank of Canada	$ 171,996	5.2%
Bank of Nova Scotia	143,446	4.4%
Encana Corporation	123,450	3.8%
BCE Inc	118,083	3.6%
Toronto Dominion Bank	116,383	3.5%
Bank of Montreal	94,340	2.9%
Canadian Imperial Bank of Commerce	87,509	2.7%
Manulife Financial	81,028	2.5%
Alcan Inc	80,161	2.5%
Barrick Gold	68,150	2.1%
Total Top Ten	**$1,084,546**	**33.2%**
Total Canadian Equities	**$3,267,828**	

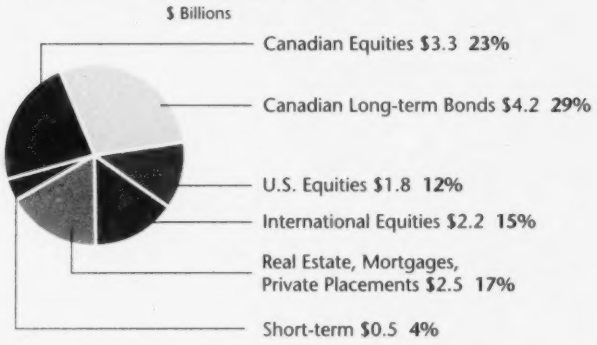
U.S. Equities
Top 10 Holdings

Company	Market Value ($ Thousands)	% of Total
Exxon Mobil Corp	$ 54,392	3.0%
Citigroup Inc	49,852	2.8%
Amern Intl Group	37,307	2.1%
Microsoft Corp	36,969	2.0%
General Electric	29,899	1.7%
Pfizer Inc	28,419	1.6%
Bank of America	28,290	1.6%
Wal Mart Stores	26,033	1.4%
Johnson & Johnson	21,374	1.2%
SBC Communication	20,207	1.1%
Total Top Ten	**$ 332,742**	**18.5%**
Total U.S. Equities	**$1,800,871**	

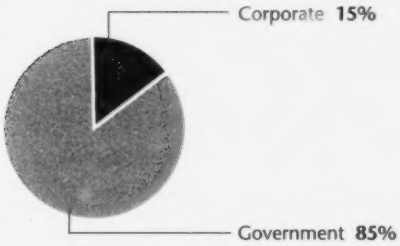
International Equities
Top 10 Holdings

Company	Market Value ($ Thousands)	% of Total
Vodafone Group	$ 56,392	2.6%
BP	47,287	2.2%
Glaxosmithkline	42,080	2.0%
Total Fina Elf	41,014	1.9%
Novartis AG	39,960	1.8%
Nestle SA	33,678	1.6%
Nokia OYJ	33,078	1.5%
ENI	30,757	1.4%
Royal Bk Scot GR	29,524	1.4%
HSBC Hldgs	26,853	1.2%
Total Top Ten	**$ 380,623**	**17.6%**
Total International Equities	**$2,164,584**	

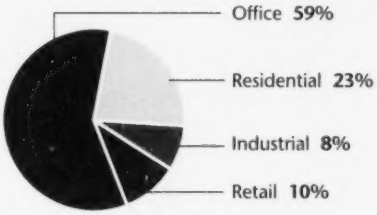
2002 Investment Holdings (Market Value)


$ Billions
Canadian Equities $3.3 23%
Canadian Long-term Bonds $4.2 29%
U.S. Equities $1.8 12%
International Equities $2.2 15%
Real Estate, Mortgages, Private Placements $2.5 17%
Short-term $0.5 4%

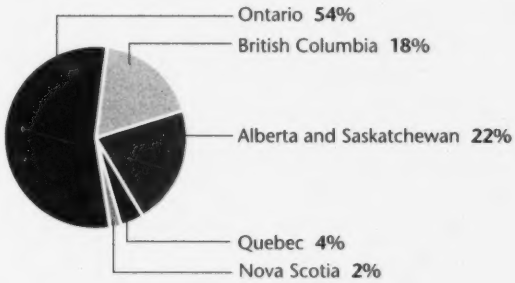
Canadian Bonds (Market Value)



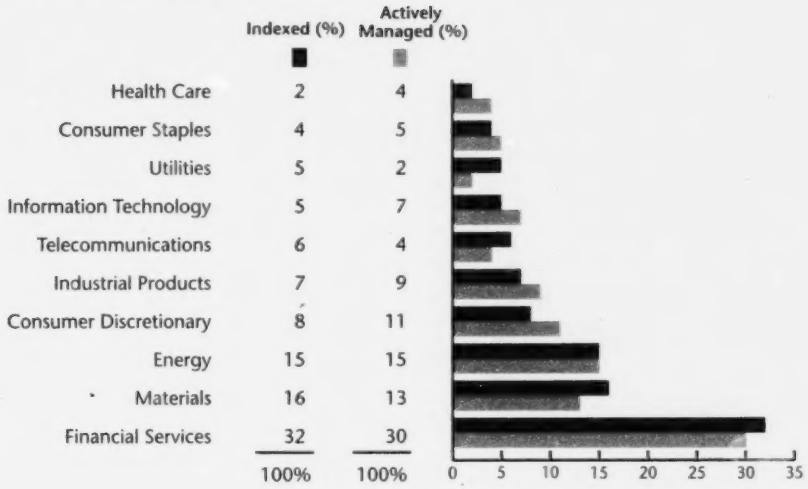
Real Estate, by Type



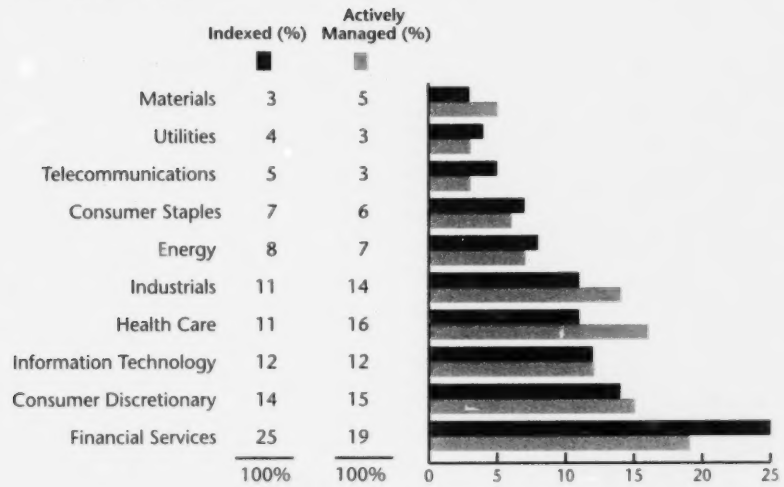
Real Estate, by Location



Canadian Equities, by Sector



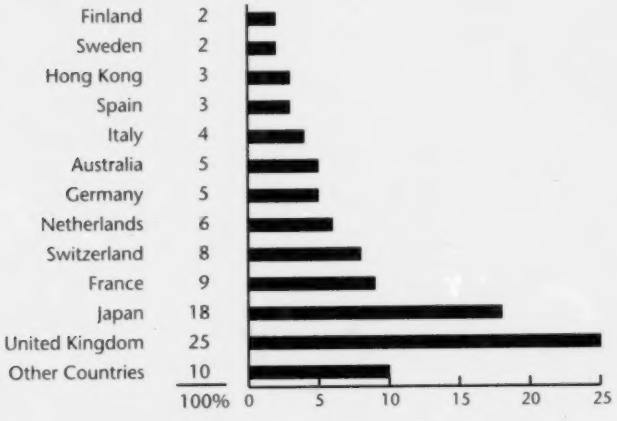
U.S. Equities, by Sector



Indexed: A portfolio of securities in approximately the same proportion as a public market index (e.g., Toronto Stock Exchange Composite).

Actively Managed: A portfolio of securities that is designed to outperform a public market index.

International Equities (%)



Market Value Rates of Return for the Year Ended December 31, 2002

	Basic Account (%)	Inflation Adjustment Account (%)	Basic Account Performance Benchmarks (%)	
Five-year Average Rates				
2002	**4.7**	**4.9**	**4.5**	
2001 Comparison	8.4	8.2	8.3	
Annual Rates				
2002	**-4.6**	**-3.6**	**-4.7**	
2001 Comparison	-1.4	-1.8	-3.0	
2002 Annual Rates by Investment Category				**2002 Performance Benchmark Indices**
Short-term				
Money Markets	2.5	2.6	2.5	SCI 91-Day Treasury Bills
Bonds	6.0	6.1	6.2	SCI All Gov't Short-term Universe
Bond				
Government	9.0	9.0	8.8	SCI Government
Corporate	9.3	9.3	8.6	SCI Corporate Universe
Long-term	11.6	11.6	11.3	SCI Government LT
Real Return	–	15.0	15.3	SCI Real Bond
Canadian Equities				
Actively Managed	-9.5	-9.5	-12.4	S&P/TSX
Indexed	-11.8	-11.8	-12.4	S&P/TSX
U.S. Equities				
Actively Managed	-23.3	-23.3	-22.3	R 1000
Indexed	-22.7	-22.7	-22.7	S&P 500
U.S. Value	-21.4	-21.4	-21.5	S&P 500 Value
U.S. Enhanced	-23.8	-23.8	-22.3	R1000
International Equities				
Asia	-11.3	-11.3	-10.1	MSCI Pacific Net
Europe	-20.5	-20.5	-18.8	MSCI Europe Net
Europe, Australia and the Far East	-15.5	-15.5	-16.5	MSCI Europe, Australia, Far East Net
Real Estate	6.0	6.0	8.0	CPI + 4%
Mortgages				
Fixed-term	8.8	8.9	7.3	SCI Short-term Bonds + 1%
Construction	5.5	5.5	4.1	SCI One-year Bill + 1%
Specialty	8.5	8.5	5.7	SCI One-year Bill + 2.5%

Performance Benchmark Indices Abbreviations

CPI	=	Consumer Price Index
SCI	=	Scotia Capital Inc.
S&P	=	Standard & Poor's
MSCI	=	Morgan Stanley Capital International
MSCI EAFE	=	Morgan Stanley Capital International Europe, Australia & Far East
R	=	Russell
S&P/TSX	=	Standard & Poor's/Toronto Stock Exchange Composite

(Source of annual rates: British Columbia Investment Management Corporation)

Actuarial Valuation/ Plan Funding

The Municipal Pension Plan is financially sound. At least every three years, an independent actuary assesses the plan's financial health and the adequacy of the contribution rates for funding the plan. The actuarial valuation as at December 31, 2000 indicated a funding surplus for basic pension benefits of $436 million. The joint trust agreement specifies how surplus assets can be used. The next valuation will be as at December 31, 2003.

An unfunded liability indicates that there is a shortfall between the benefits that are promised and the assets that are available to pay for these benefits; whereas a surplus indicates all basic benefits are funded.

Latest Actuarial Valuation–December 31, 2000

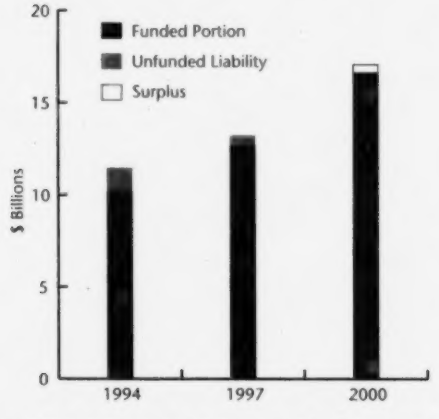
$ Millions

	Basic Pension Benefits Net Surplus (Unfunded Liability)		
	2000	1997	1994
For Funding Purposes*	$436	($548)	($1,309)
Ratio of Surplus (Unfunded Liability) to Covered Payroll	9.1%	(14)%	(36)%
For Accounting Purposes to December 31	$847	($297)	($1,081)

* Assuming contributions continue at existing rates, in effect at the valuation date. The next valuation will be as at December 31, 2003, with the results included in the 2004 annual report.

See Note 7 and Note 8 to the Financial Statements for additional explanation.

Funding of the Total Basic Benefit Liability



Plan Benefits

The Municipal Pension Plan is a defined benefit pension plan, meaning your pension is based on how many pensionable years you were an active plan member, the average of your five highest years of salary (not necessarily your last five years), and your age at retirement. Your pension is not based on how much you contributed to the plan, nor is it based on the investment performance of the plan's assets. The advantage of a defined benefit plan is that your pension is predictable and is not based entirely on economic conditions during your working lifetime nor at the time of your retirement. The plan provides entitlement to a pension benefit after two years of enrolment. The plan also provides survivor and disability benefits. Benefits such as inflation protection to the basic pension and group health benefits are not guaranteed. The board monitors the ability to continue to provide these benefits on an ongoing basis.

The number of retired members grew 7% in 2002. The number of pensions granted in 2002 increased 22% over the number granted in 2001.

Pension Benefits

All members with two years of contributory service are eligible for a pension benefit. Members are eligible for unreduced pension benefits:

- at age 65 (age 60 for certain groups);
- at age 60, with at least two years of contributory service (age 55 for certain groups); or
- at age 55 or older, with age plus years of service equaling 90 or more (age 50 or older and age plus service equaling 80 or more for certain groups).

Other retiring members have a reduction formula applied to their pensions.

The basic plan benefit is integrated with the Canada Pension Plan (CPP). As a result, the plan provides an unreduced benefit of 1.3% of pensionable earnings, up to the CPP Year's Maximum Pensionable Earnings (YMPE) and 2% of pensionable earnings over the YMPE, for each year of pensionable service (to a maximum of 35 years).

Pensionable earnings are based on the member's five-year highest average salary (HAS). The plan also provides a bridging benefit with CPP, which is payable to age 65 (or the date of death, if earlier). The bridging benefit is 0.7% of the lesser of YMPE or the HAS.

Increases to pension payments may be provided each January 1 in accordance with the indexing provisions of the plan. These increases are based on the annual increase in the Consumer Price Index (CPI) as at the previous September 30, and are subject to availability of funds in the Inflation Adjustment Account (Note 6 and 7b to the Financial Statements).

At January 1, 2002, retired members received a full CPI increase of 2.6% (2001 – 2.7%), at January 1, 2003, retired members will receive a full CPI increase of 2.3%.

Basic pensions have a significant value. The value of a basic pension depends on a number of factors, including the member's age, salary and years of service at retirement.

The table below shows the average asset value ("present value") of pensions granted during 2002. The value represents approximately how much it would cost to purchase an average basic pension provided under the Municipal Pension Plan.

Average Values of Regular Pensions Granted January 1, 2002 to December 31, 2002

(Combination of those whose retirement age was 60 and 65)
Subdivided by Years of Service

Years of Service*	Number of Pensions Granted	Average Annual Salary Base	Average Annual Pension	Average Present Value of Pensions	Total Present Value of Pensions ($ Millions)
<10 years	324	$35,000	$ 3,800	$ 54,000	$ 17.5
10–14	555	41,000	7,500	107,000	59.4
15–19	413	44,000	11,200	160,000	66.1
20–24	535	46,000	14,600	209,000	111.8
25–29	458	50,000	19,900	294,000	134.7
30–34	302	54,000	25,400	392,000	118.4
≥35 years	60	56,000	29,500	446,000	26.8
Total	**2,647**	**n/a**	**n/a**	**n/a**	**$534.7**
All PensionAverage	n/a	$45,000	$14,000	$202,000	n/a

* Years of service includes service transferred from other plans.

Pensions 1993–2002

	Granted During Year	Pension Terminations	In Force at End of Year	Basic Pensions Paid ($ Millions)	Inflation Adjustments Paid ($ Millions)	Other Pensions Paid ($ Millions)	Total ($ Millions)
1993	1,695	407	21,983	170.9	51.7	0.1	222.7
1994	1,991	418	23,556	188.0	53.9	0.1	242.0
1995	1,964	447	25,073	205.6	53.0	0.1	258.7
1996	2,080	439	26,714	224.0	57.0	0.1	281.1
1997	2,282	502	28,494	245.4	59.1	0.1	304.6
1998	2,340	606	30,228	268.4	61.6	0.2	330.2
1999	2,652	604	32,276	295.2	61.6	0.3	357.1
2000	2,629	636	34,269	325.1	67.9	0.4	393.4
2001	2,707	698	36,278	356.2	75.1	0.7	432.0
2002	**3,307**	**653**	**38,932**	**391.5**	**82.3**	**1.2**	**475.0**

Pensions Granted, by Type 1993–2002

	Regular*	Death*	Disability+	Deferred	Total
1993	1,334	62	176	123	1,695
1994	1,588	51	220	132	1,991
1995	1,575	52	200	137	1,964
1996	1,670	59	205	146	2,080
1997	1,815	47	274	146	2,282
1998	1,842	74	243	181	2,340
1999	1,992	50	447	163	2,652
2000	2,089	80	323	137	2,629
2001	2,173	70	301	163	2,707
2002	**2,647**	**60**	**350**	**250**	**3,307**

* Pensions granted do not include any pension continued to a beneficiary.
\+ LTD pensions are for those members on long-term disability who became eligible for a regular pension.

2002 Regular Pensions Granted by Age at Retirement

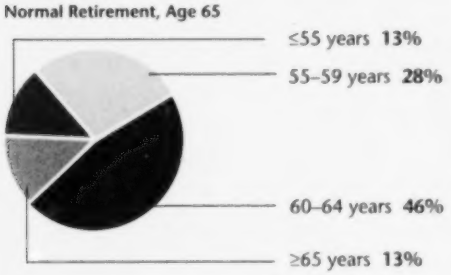
Normal Retirement, Age 65—All plan members except Police Officers and Fire Fighters

(Subdivided by years of service and age at retirement.)

Years of Service	55	56–59	60–64	65+	Total
< 10 years	27	66	161	66	320
10–14	65	139	260	89	553
15–19	54	113	188	58	413
20–24	76	143	256	54	529
25–29	50	115	180	35	380
30–34	37	123	80	13	253
≥35 years	7	18	18	2	45
Total	**316**	**717**	**1,143**	**317**	**2,493**

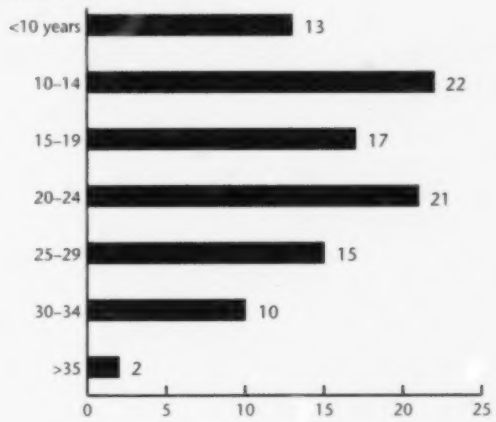
Percentage of 2002 Regular Pensions Granted by Age

Normal Retirement, Age 65



Percentage of 2002 Regular Pensions by Years of Service

Normal Retirement, Age 65



2002 Regular Pensions Granted by Age at Retirement

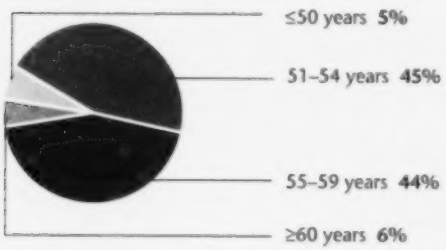
Normal Retirement, Age 60—Police Officers and Fire Fighters

(Subdivided by years of service and age at retirement.)

Years of Service	50	51–54	55–59	60+	Total
<10 years	–	–	–	4	4
10–14	–	1	–	1	2
15–19	–	–	–	–	–
20–24	1	1	4	–	6
25–29	5	43	29	1	78
30–34	2	23	24	–	49
≥35 years	–	2	10	3	15
Total	**8**	**70**	**67**	**9**	**154**

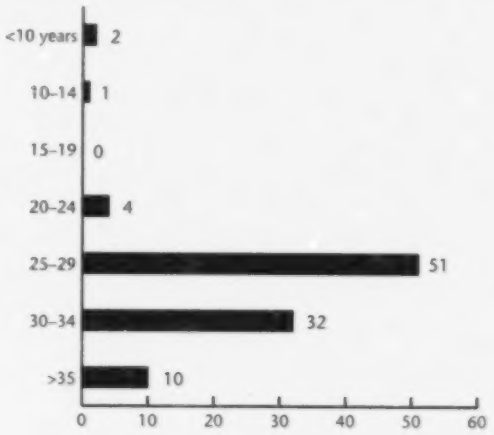
Percentage of 2002 Regular Pensions Granted by Age

Normal Retirement, Age 60



Percentage of 2002 Regular Pensions by Years of Service

Normal Retirement, Age 60



TERMINATION BENEFITS

A terminating member who is not eligible for a pension benefit may receive a refund of contributions with interest. A terminating member who is eligible for a pension benefit but who has not reached the earliest age at which the member would be eligible to receive an immediate pension is eligible to choose:

- a deferred pension; or
- a transfer of the commuted value of the pension benefit (the minimum value is the member's contributions with interest) to a locked-in registered retirement savings plan or similar tax-sheltered plan.

A terminating member may also choose to leave monies on deposit in anticipation of future entitlements.

The number and value of termination benefits paid can vary from year to year, depending on the employment environment, the type of termination benefit paid and the plan member's entitlement.

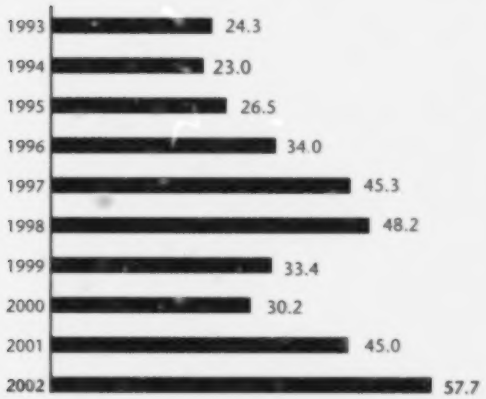
In 2002, the number and value of termination benefits paid increased significantly compared to 2001.

If a member leaves the plan and is eligible for a refund of contributions, the refund includes interest. Interest compounds annually and is credited to the member's contribution balance. The balance, including interest, is included in the annual Member's Benefit Statement.

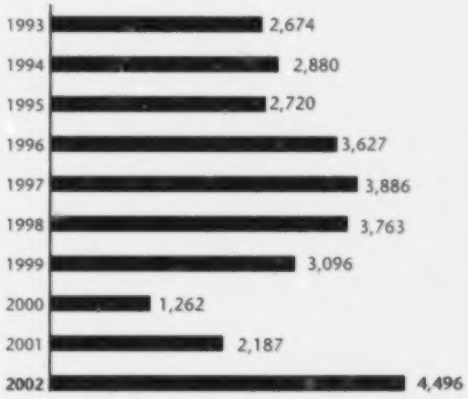
The rate of interest is governed by provincial pension standards and plan rules. It is based on average five-year bank personal term deposit rates.

Value of Termination Benefits Paid

$ Millions



Number of Termination Benefits Paid



Termination benefits paid include only refunds of contributions and commuted-value payments; deferred pensions are included in pension statistics.

Annual Rates for Interest Credited to Contribution Balances

1998	4.30%
1999	4.56%
2000	5.28%
2001	4.00%
2002	**3.74%**

Portability Provisions

Portability allows pension plan members to carry pension rights from one plan to another. For instance, members of the Municipal Pension Plan may carry their years of pensionable service and contributions to a new plan at a different place of employment if the new plan has a portability agreement with the Municipal Pension Plan. Employers that allow pension plan members to transfer their pension rights to other pension plans are called "reciprocal employers."

Members of the Municipal Pension Plan who have made contributions to another pension plan should inquire about portability agreements.

In 2002, there were 532 reciprocal transfers-in from other pension plans and 988 transfers-out. The transfers-in totaled approximately $26.6 million; transfers-out totaled approximately $58.6 million. Transfers include transfers between the Municipal Pension Plan and the three large BC public sector plans (College, Teachers' and Public Service), and other plans that have signed transfer agreements.

Purchase of Additional Service

It may be possible for plan members to purchase additional service. This service may include:

- leaves of absence (maternity, paternal or other leave)
- arrears contributions (not enrolled but eligible to buy back missed contributions)
- other service (employment service before becoming a regular contributor); or
- reinstatements (contributions previously refunded from the plan).

Member and Employer Purchases of Additional Service

	Number of Purchases		Value of Purchases ($ Thousands)	
	2002	2001	2002	2001
Leaves of Absence	931	577	$ 1,165	$ 731
Arrears Contributions	352	563	3,591	2,662
Other Service	706	1,304	11,181	4,860
Reinstatements	759	522	$ 8,545	5,410
Total	2,748	2,966	$24,482	$13,663

Plan Participants

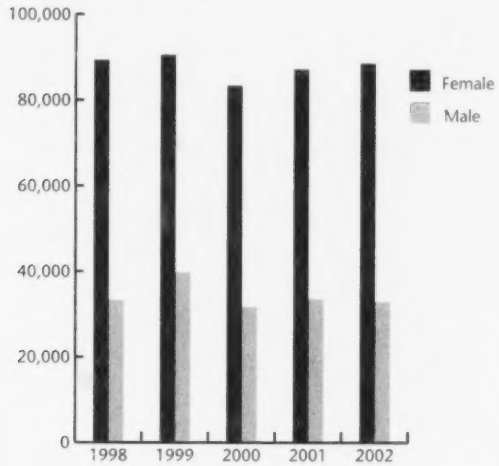
Membership in the Municipal Pension Plan is open to all eligible employees of a municipality, school district, regional college or other employer designated by the board. Once an employee elects or qualifies to contribute to the plan, contributions continue as long as the employee remains with the employer, or until the employee has completed 35 years of service.

There are three types of members in the Municipal Pension Plan:

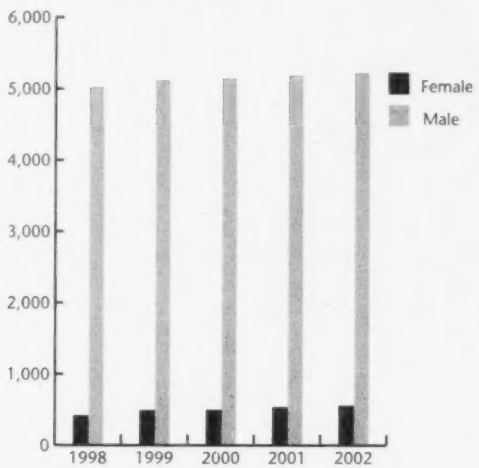
- Active—those who are currently contributing, or are on a leave of absence or are receiving benefits from an approved long-term disability plan.
- Inactive—those who have terminated their employment with contributions deposited in the plan. They may or may not be eligible for a pension in the future. Those who are eligible are known as vested and deferred members. Even if an inactive member is not entitled to a Municipal Pension Plan benefit, they may be eligible for a pension as a result of combining their entitlement in other pension plans covered by the Interplan Pension Transfer Agreement.
- Retired—those who are receiving a pension.

Active membership in the Municipal Pension Plan increased by about 1.5% in 2002. There are about 127,000 active plan members and around 39,000 retired plan members. The number of retired members grew 7% in 2002, and is expected to continue to grow in the next three years as a result of the aging membership population.

Active Members
Normal retirement, age 65



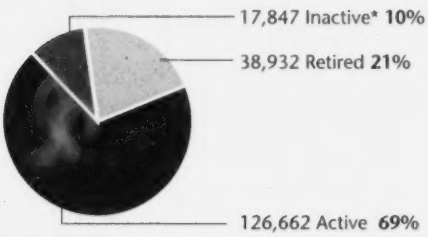
Active Members
Normal retirement, age 60



Number of Members

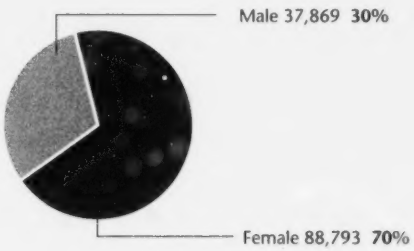
	Active	Inactive, Terminated	Inactive, Vested and Deferred	Retired	Total
1998	111,366	10,906	4,566	30,228	157,066
1999	115,353	8,156	6,207	32,276	161,992
2000	120,048	8,029	7,639	34,269	169,985
2001	124,855	7,897	8,550	36,278	177,580
2002	**126,662**	**8,407**	**9,440**	**38,932**	**183,441**

2002 Membership Profile

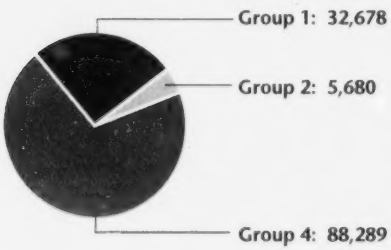


* Members no longer employed, but with money in the plan.

2002 Active Member Profile



Active Members by Group



Group 1: Males other than Fire and Police

Group 2: Fire and Police

Group 3: Females special closed group (15 not shown on graph)

Group 4: Females other than Fire and Police

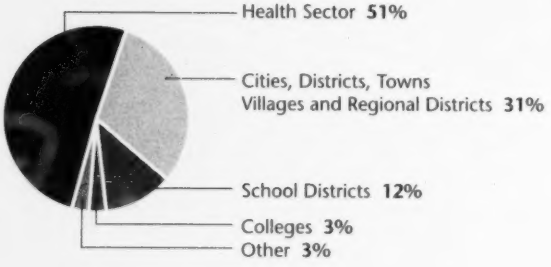
Active Members by Employer Group

	Group 1	Group 2	Group 3	Group 4	Total
Cities, Districts, Towns, Villages and Regional Districts	13,632	5,613	7	9,178	28,430
Health Sector	10,154	–	1	58,987	69,142
School Districts	6,503	–	5	13,753	20,261
Colleges	1,341	–	1	3,544	4,886
Miscellaneous	1,048	67	1	2,827	3,943
Total	**32,678**	**5,680**	**15**	**88,289**	**126,662**

Municipal Pension Plan Employers

	Number of Employers
Cities, Districts, Towns, Villages and Regional Districts	184
Health Sector	275
School Districts	57
Colleges	24
Miscellaneous	125
Total	**665**

Total Regular Contributions by Employer Sector as a Percentage



Contributions

Employer Contribution Rates

Employers contribute at varying rates, depending on the mix of active plan members in the group rate classification specified by the plan. The contribution rates in the tables below are applied to pensionable salaries.

Employer Contribution Rates by Group and Age, salaries less than or equal to YMPE

Group	<50 Years	≥50 Years	<45 Years	≥45 Years
1	3.4%	8.3%	n/a	n/a
2	n/a	n/a	7.0%	15.5%
3	n/a	n/a	4.1%	9.7%
4	3.9%	9.3%	n/a	n/a

Employer Contribution Rates by Group and Age, salaries greater than YMPE

Group	<50 Years	≥50 Years	<45 Years	≥45 Years
1	4.9%	9.8%*	n/a	n/a
2	n/a	n/a	8.5%	17.0%
3	n/a	n/a	5.6%	11.2%
4	5.4%	10.8%*	n/a	n/a

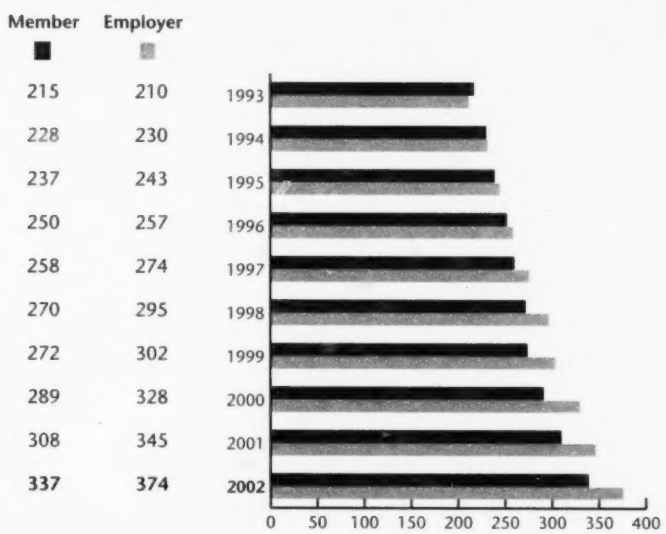
* The employer contribution rate doubles when a plan member reaches age 50.

Member Contribution Rates

Members contribute 6% of salaries up to and including the Canada Pension Plan YMPE ($39,100 in 2002) and 7.5% of salaries above that amount.

Contributions

$ Millions



FINANCIAL STATEMENTS

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Victoria BC V8W 3Y7

Telephone (250) 480-3500
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www.kpmg.ca

AUDITORS' REPORT

To the Members of the Municipal Pension Plan

We have audited the statement of net assets available for benefits of the Municipal Pension Plan as at December 31, 2002 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the Plan's net assets available for benefits as at December 31, 2002 and the changes in its net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Victoria, Canada

April 4, 2003

KPMG LLP, a Canadian owned limited liability partnership established under the laws of Ontario, is the Canadian member firm of KPMG International, a Swiss nonoperating association.

PENSION
CORPORATION

Executive
Offices

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Stn Prov Govt
Victoria BC
V8W 9V8

Location:
2995 Jutland Road
Victoria BC
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Phone:
250 387 8201
1 800 663 8823
Fax:
250 953 0429

MUNICIPAL PENSION PLAN

ADMINISTRATIVE AGENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of the Municipal Pension Plan were prepared by the British Columbia Pension Corporation, the administrative agent for the board of trustees for the pension plan. The board of trustees is responsible for having annual financial statements prepared in accordance with generally accepted accounting principles. The Corporation prepares the financial statements on the board's behalf and is responsible for the integrity and fairness of the data presented, including significant accounting judgements and estimates. This responsibility includes selecting appropriate accounting policies consistent with generally accepted accounting principles in Canada. Other financial information contained in the Annual Report for the pension plan conforms to these financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, the Corporation maintains the internal controls necessary to provide reasonable assurance that relevant and reliable financial information is produced and that assets are properly safeguarded.

The firm of Eckler Partners Ltd. has been appointed the independent consulting actuary to the plan by the board of trustees. The role of the actuary is to complete an actuarial valuation of the plan in accordance with accepted actuarial practice; the results of the valuation are included in the financial statements.

The firm of KPMG LLP has been appointed the independent auditor to the plan by the board of trustees. The role of the auditor is to perform an independent audit of the financial statements of the pension plan in accordance with Canadian generally accepted auditing standards. The resulting audit opinion is set out in the auditors' report attached to these financial statements.

JOHN A. MOCHRIE
Chief Executive Officer
British Columbia Pension Corporation

P. LOUISE YOUNG, C.A.,
Vice-President, Corporate Services,
British Columbia Pension Corporation

April 4, 2003

MUNICIPAL PENSION PLAN
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS
($ Thousands)

December 31	2002	2001
ASSETS		
Investments (Note 3)	$ 14,505,564	$ 15,130,466
Receivables		
Members' contributions	13,532	12,900
Employers' contributions	14,968	13,373
Accrued investment income	1,376	1,129
Due from sale of investments	30,979	-
Other	-	60
	60,855	27,462
Prepaid expenses	1,220	3,508
Cash	8,182	6,999
Total Assets	14,575,821	15,168,435
LIABILITIES		
Payable for purchase of investments	7,649	11,500
Accounts payable and accrued expenses	17,099	12,864
Total Liabilities	24,748	24,364
NET ASSETS AVAILABLE FOR BENEFITS	$ 14,551,073	$ 15,144,071

Obligations for Pension Benefits for Funding Purposes (Note 7)
Obligations for Pension Benefits for Accounting Purposes (Note 8)
Commitments (Note 11)

All accompanying notes are an integral part of these financial statements.

John W. Cook, F.C.I.A.,
Chair and Trustee
Municipal Pension Board of Trustees

Ken Bayne
Trustee
Municipal Pension Board of Trustees

Steven Polak
Trustee
Municipal Pension Board of Trustees

MUNICIPAL PENSION PLAN
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
($ Thousands)

For the year ended December 31	Basic Account	Retirement Annuity Account	Inflation Adjustment Account	Supplemental Benefits Account	Totals 2002	2001
(DECREASE) INCREASE IN ASSETS						
Net investment (loss) income (Note 4)	$ (554,095)	$ (13,892)	$ (102,932)	$ -	$ (670,919)	$ (202,765)
Contributions (Note 5)						
Members	277,067	7,132	51,647	1,017	336,863	308,057
Employers	301,657	8,645	10,943	52,540	373,785	345,111
	578,724	15,777	62,590	53,557	710,648	653,168
Transfers from other plans	19,743	-	6,812	-	26,555	17,637
Total (Decrease) Increase in Assets	44,372	1,885	(33,530)	53,557	66,284	468,040
DECREASE IN ASSETS						
Pension benefits						
Contributory	391,459	-	-	1,230	392,689	356,981
Indexing Adjustments	82,263	-	-	55	82,318	75,096
	473,722	-	-	1,285	475,007	432,077
Termination benefits	37,330	3,519	15,753	1,086	57,688	45,002
Transfers to other plans	43,173	-	15,424	-	58,597	13,614
Retired member group benefits (Note 10)	-	-	-	51,003	51,003	39,627
Administration costs (Note 9)	16,804	-	-	183	16,987	14,706
Total Decrease in Assets	571,029	3,519	31,177	53,557	659,282	545,026
(DECREASE) INCREASE IN NET ASSETS BEFORE TRANSFERS	(526,657)	(1,634)	(64,707)	-	(592,998)	(76,986)
Account transfers (Note 6)	125,544	(27,061)	(98,483)	-	-	-
(DECREASE) INCREASE IN NET ASSETS	(401,113)	(28,695)	(163,190)	-	(592,998)	(76,986)
NET ASSETS AVAILABLE FOR BENEFITS AT BEGINNING OF YEAR	11,970,200	309,421	2,864,450	-	15,144,071	15,221,057
NET ASSETS AVAILABLE FOR BENEFITS AT END OF YEAR	$ 11,569,087	$ 280,726	$ 2,701,260	$ -	$ 14,551,073	$ 15,144,071

Supplemental Benefits Account (Note 10)

MUNICIPAL PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

1. DESCRIPTION OF THE MUNICIPAL PENSION PLAN

Effective April 5, 2001, the Municipal Pension Plan Joint Trust Agreement was implemented and now governs the plan. The ongoing partners to the agreement are the Municipal Employees' Pension Committee, as the member partner, and the provincial government and the Union of British Columbia Municipalities, as the employer partners. The pension plan rules are made under the authority of that agreement. The agreement also describes the composition, appointment, powers, functions and duties of the Municipal Pension Board of Trustees (the board). For more information refer to the Joint Trust Agreement.

a) General

The plan is a contributory defined benefit pension plan open to eligible employees of a municipality, a body designated under the *College and Institute Act* or other body designated by the board.

b) Roles and Responsibilities

The Board of Trustees
The partners and key stakeholders are responsible for appointing the trustees other than the chair, directing amendment to the plan if certain conditions are met and resolving trustee disputes. The Municipal Pension Board of Trustees consists of up to seventeen members. Sixteen members representing plan members and plan employers are appointed by the partners and other organizations representing plan employers and plan members. An alternate trustee may be appointed for each primary trustee. There is a seventeenth trustee, the chair, who is appointed by the other trustees. The board is responsible for the management of the pension plan, including the administration and investments of assets. The board may amend the pension plan rules as long as changes can be funded by pension fund surplus. Unless required to ensure compliance with regulatory enactments applicable to the pension plan, plan changes that result in contribution rate changes can only be initiated by the partners.

British Columbia Pension Corporation (Pension Corporation)
The Pension Corporation provides administrative services as an agent of the board of trustees.

British Columbia Investment Management Corporation (bcIMC)
The bcIMC provides investment management services as an agent of the board of trustees.

MUNICIPAL PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

1. DESCRIPTION OF THE MUNICIPAL PENSION PLAN (CONTINUED)

c) Contributions

Basic Account

Members contribute to Basic Account 5.0% of salaries up to and including the Canada Pension Plan Year's Maximum Pensionable Earnings (YMPE) ($39,100 in 2002) and 6.5% of salaries above that, less amounts allocated to the Supplemental Benefits Account. (see Notes 5 and 10).

Employers contribute to the Basic Account at varying rates, depending on the mix of employees in the group rate classifications specified by the plan, less amounts allocated to the Supplemental Benefits Account (see Notes 5 and 10).

Inflation Adjustment Account

Members contribute 1% of salaries to the Inflation Adjustment Account (IAA). Employers contribute 1% of salaries to the IAA, less amounts allocated to the Supplemental Benefits Account (see Notes 5 and 10).

Retirement Annuity Account

Some employers have special agreements with members by which both make extra contributions to increase the members' pensions. These contributions are credited to the Retirement Annuity Account; they are transferred at retirement to the Basic Account as additional pensions are purchased with the accumulated monies.

d) Pension Benefits

All members with two years of contributory service are eligible for a pension benefit.

Members are eligible for unreduced pension benefits:

- at age 65 (age 60 for certain groups);
- at age 60, with at least 2 years contributory service (age 55 for certain groups);
  or
- at age 55 or older, with age plus years of service equaling 90 or more (age 50 or older and age plus service equaling 80 or more for certain groups).

MUNICIPAL PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

1. DESCRIPTION OF THE MUNICIPAL PENSION PLAN (CONTINUED)

d) Pension Benefits (continued)

Other retiring members have a reduction formula applied to their pensions.

The basic plan benefit is integrated with the Canada Pension Plan (CPP). As a result, the plan provides an unreduced benefit of 1.3% of pensionable earnings, up to the CPP Year's Maximum Pensionable Earnings (YMPE) and 2% of pensionable earnings over the YMPE, for each year of pensionable service (to a maximum of 35 years).

Pensionable earnings are based on the member's five-year highest average salary (HAS). The plan also provides a bridging benefit with CPP which is payable to age 65 (or the date of death, if earlier). The bridging benefit is 0.7% of the lesser of YMPE or the HAS.

Increases to pension payments may be provided each January 1 in accordance with the indexing provisions of the plan. These increases are based on the annual increase in the Consumer Price Index (CPI) as at the previous September 30, and are subject to availability of funds in the Inflation Adjustment Account (Note 6 and 7b).

At January 1, 2002, retired members received a full CPI increase of 2.6% (2001 – 2.7%); at January 1, 2003, retired members will receive a full CPI increase of 2.3%.

e) Termination and Portability Benefits

A terminating member who is not eligible for a pension benefit may receive a refund of contributions with interest. A terminating member who is eligible for a pension benefit but who has not reached the earliest age at which the member would be eligible to receive an immediate pension is eligible to choose:

- a deferred pension; or
- a transfer of the commuted value of the pension benefit (the minimum value is the member's contributions with interest) to a locked-in registered retirement savings plan or similar tax-sheltered plan.

A terminating member may also choose to leave monies on deposit in anticipation of future entitlements.

Where there are portability arrangements between the plan and other plans, members may be able to transfer certain pension rights.

MUNICIPAL PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

1. DESCRIPTION OF THE MUNICIPAL PENSION PLAN (CONTINUED)

f) Other Benefits

Disability and survivor benefits are also available under the plan. Supplemental benefits (Note 10) may also be funded from the Supplemental Benefits Account of the pension fund. Under certain circumstances, members may also reinstate or purchase additional service to increase their future pension benefits.

g) Income Taxes

The plan is a Registered Pension Plan (RPP) as defined in the *Income Tax Act* (Canada), except for any supplemental benefits (Note 10) which are funded in addition to the RPP. The RPP is not subject to income taxes.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Presentation

These financial statements present the pension plan as a separate financial reporting entity, independent of the plan's contributing employers and members, and independent of any associated retired member group benefit plans. The Statement of Net Assets Available for Benefits shows the assets under control of the trustees of the plan, and does not purport to show their adequacy to meet the obligations of the plan.

b) Investments

Investments are stated at market value. Market value is derived from external quotations, appraisals, or independent evaluations. Investment purchases and sales are recorded on trade date.

c) Investment Income

Investment income is recorded on the accrual basis.

d) Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of increases and decreases in assets during the period. Actual results could differ from those estimates. Significant areas requiring the use of management estimates relate to the valuation of investments and the actuarial estimate of the actuarial position of the Basic Account.

MUNICIPAL PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

3. INVESTMENTS (Market Value)

	2002			2001
	Basic Account	Inflation Adjustment Account	Total	Total
			($ Thousands)	
Short-term	$ 296,535	$ 30,030	$ 326,565	$ 233,273
Canadian Bonds	3,545,817	866,956	4,412,773	4,456,431
Canadian Equities	3,258,609	768,576	4,027,185	4,618,467
U.S. Equities	842,404	199,110	1,041,514	1,118,995
International Equities	1,738,523	426,061	2,164,584	2,138,547
Mortgages	475,146	112,249	587,395	542,954
Real Estate	1,215,328	276,253	1,491,581	1,528,164
Private Placements	438,075	15,892	453,967	493,635
	$11,810,437	$2,695,127	$14,505,564	$15,130,466

Plan investments consist primarily of direct ownership in units of pooled investment portfolios, managed by the bcIMC. Each unit gives its holder a proportionate share in the net assets of the pooled investment fund. One or more pooled investment portfolios exist for different types of investments, such as short-term investments, Canadian bonds and Canadian equities.

Short-term investments consist of Canadian and U.S. money market securities, such as treasury bills, with terms of 15 months or less. Canadian bonds consist of government and corporate bonds and debentures. Equities consist primarily of publicly traded shares, and in the case of international equities refer to investments in Europe, Australia and the Far East.

Mortgages consist mainly of Canadian construction, commercial and multi-family residential mortgages. Real estate investments consist mainly of diversified Canadian income-producing properties. Private placements refer to Canadian and international long-term debt or equity investments made outside the structure of public markets (Note 11).

The mortgages are secured by real estate and are valued using current market yields. The real estate is valued quarterly by bcIMC real estate investment managers and, on average, annually by independent external appraisals to establish current market values. Private placements are valued annually by external managers at their estimate of fair market value.

For administrative purposes, the Retirement Annuity Account assets are included in Basic Account Investments (2002 - $280.7 million; 2001 - $309.4 million).

MUNICIPAL PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

4. INVESTMENT INCOME

	2002			2001
	Income Allocation	Current Period Change In Market Value	Total	Total
			($ Thousands)	
Basic Account				
Short-term	$ 5,321	$ (616)	$ 4,705	$(293,525)
Canadian Bonds	210,580	115,063	325,643	288,038
Canadian Equities	56,859	(483,353)	(426,494)	46,800
U.S. Equities	22,399	(240,280)	(217,881)	(95,149)
International Equities	38,033	(368,109)	(330,076)	(217,582)
Mortgages	29,330	7,010	36,340	34,656
Real Estate	61,653	13,974	75,627	87,572
Private Placements	5,267	(23,068)	(17,801)	6,322
	$429,442	$(979,379)	$(549,937)	$(142,868)
Investment Management Costs			(18,050)	(16,278)
Net Investment Loss			(567,987)	(159,146)
Retirement Annuity Account Income Allocation			13,892	4,471
			$(554,095)	$(154,675)
Inflation Adjustment Account				
Short-term	$ 409	$ (66)	$ 343	$ (66,093)
Canadian Bonds	56,482	47,680	104,162	45,215
Canadian Equities	13,077	(112,371)	(99,294)	19,097
U.S. Equities	4,849	(53,408)	(48,559)	(19,241)
International Equities	8,855	(89,901)	(81,046)	(46,418)
Mortgages	6,696	1,614	8,310	8,054
Real Estate	13,835	3,183	17,018	19,966
Private Placements	226	(225)	1	(645)
	$104,429	$(203,494)	$ (99,065)	$ (40,065)
Investment Management Costs			(3,867)	(3,554)
Net Investment Loss			$(102,932)	$ (43,619)
Total Basic, Inflation Adjustment and Retirement Annuity Accounts				
Total Investment Loss			$(649,002)	$(182,933)
Total Investment Management Costs (Note 9)			(21,917)	(19,832)
Total Net Investment Loss			$(670,919)	$(202,765)

MUNICIPAL PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

4. INVESTMENT INCOME (CONTINUED)

The income allocation portion of investment income represents pooled investment portfolio income attributable to the plan, as a unitholder, and as calculated by the bcIMC, as well as interest income from directly held investments. All income earned within a pooled investment portfolio is reinvested within the portfolio. The Retirement Annuity Account is allocated a share of Basic Account investment income (loss) based on the annual rate of return of the Basic Account.

5. CONTRIBUTIONS

	2002					2001
	Basic Account	Retirement Annuity Account	Inflation Adjustment Account	Supplemental Benefits Account	Total	Total
					($ Thousands)	
Members' contributions						
Regular	$263,346	$ -	$49,876	$ -	$313,222	$290,681
Special agreement	-	7,107	-	-	7,107	6,995
Arrears	1,109	-	146	-	1,255	1,228
Purchase of service	4,371	-	847	-	5,218	2,398
Leave of absence	396	-	78	-	474	387
Reinstatement	7,845	-	700	-	8,545	5,410
Supplemental benefits	-	25	-	1,017	1,042	958
	277,067	7,132	51,647	1,017	336,863	308,057
Employers' contributions						
Regular	293,842	-	9,769	-	303,611	293,180
Special agreement	-	8,643	-	-	8,643	8,214
Arrears	2,072	-	263	-	2,335	1,434
Purchase of service	5,149	-	814	-	5,963	2,462
Leave of absence	594	-	97	-	691	344
Supplemental benefits	-	2	-	52,540	52,542	39,477
	301,657	8,645	10,943	52,540	373,785	345,111
Total Contributions	$578,724	$15,777	$62,590	$53,557	$710,648	$653,168

Employer regular Inflation Adjustment Account contributions were $50.0 million of which $40.2 million was allocated to the Supplemental Benefits Account. Employer regular Basic Account contributions were $306.1 million, of which $12.3 million was allocated to the Supplemental Benefits Account.

MUNICIPAL PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

6. ACCOUNT TRANSFERS

	2002			2001		
	Basic Account	Retirement Annuity Account	Inflation Adjustment Account	Basic Account	Retirement Annuity Account	Inflation Adjustment Account
	($ Thousands)					
Present value of current Indexing supplements	$ 96,173	$ -	$(96,173)	$90,424	$ -	$(90,424)
Indexing of deferred pensions	2,310	-	(2,310)	777	-	(777)
Excess interest	-	-	-	(44,314)	-	44,314
Pensions purchased from Retirement Annuity Account	27,061	(27,061)	-	25,945	(25,945)	-
	$125,544	$(27,061)	$(98,483)	$72,832	$(25,945)	$(46,887)

A separate account is maintained for funding current and future indexing supplements. This Inflation Adjustment Account (IAA) is funded through a portion of ongoing contributions from employers and members (Note 1c), from investment income earned on its own assets, and from excess interest earned in the Basic Account.

All pension payments are made from the Basic Account. Each year, when members' pension payments are adjusted for current indexing, monies are transferred from the IAA to the Basic Account to cover the present value of all future payments arising from the current indexing supplements.

When a deferred pension begins to be paid, the present value of the cost of living changes during the deferral period is also transferred from the IAA to the Basic Account.

There was no excess interest transfer to the IAA for the year ended December 31, 2002 (2001: $44 million). Excess interest is based only on investment income earned on those Basic Account assets required for pensions currently being paid (approximately $4.3 billion of assets for 2002; $3.9 billion for 2001). The excess interest rate of return is determined by taking the difference between the actual five-year average market rate of return and the rate of return used by the actuary (7.25%) in valuing the plan's liabilities. The calculated excess interest rate of return for 2002 was –2.55% (2001: 1.15%). This negative return will be carried forward and offset against future excess returns.

A separate Retirement Annuity Account is maintained to record extra contributions by employers and members under special agreements. Monies are transferred at retirement from the Retirement Annuity Account to the Basic Account as additional pensions are purchased.

MUNICIPAL PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

7. OBLIGATIONS FOR PENSION BENEFITS FOR FUNDING PURPOSES

a) Basic Account

An actuarial valuation of the plan's account assets and pension obligations is performed at least every three years by an independent actuary to determine an appropriate combined employer and member contribution rate to fund the Basic Account. For this purpose, the plan actuary values both accrued assets and benefit obligations to the financial statement date, as well as contributions and benefits for future service. The actuary's calculated contribution rate is based on the entry age method.

The most recent full actuarial valuation for funding purposes was prepared as at December 31, 2000. This valuation disclosed a surplus for basic pension benefits of $436 million (1997 - $548 million unfunded liability), assuming future contributions at the contribution rates in effect at the valuation date. The next actuarial valuation will be as at December 31, 2003.

The following table shows a key indicator of the financial health of a pension plan, the Basic Account surplus or unfunded actuarial liability (UAL) as a percentage of payroll, for the three most recent actuarial valuations. (Values shown in the table assume future contributions at the rates in place at the time, rather than the actuary's calculated rates.)

Actuarial Valuation Date	Actuarial Value of Basic Account Assets (w)	Basic Account Actuarial Liability (x)	Basic Account Surplus (UAL) (y)	Covered Payroll (z)	Surplus/(UAL) as a Percentage of Payroll (y/z)
		($ Millions)			
1994	10,132	11,442	(1,310)	3,665	(36%)
1997	12,654	13,202	(548)	3,917	(14%)
2000	17,049	16,613	436	4,639	9%

MUNICIPAL PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

7. OBLIGATIONS FOR PENSION BENEFITS FOR FUNDING PURPOSES (CONTINUED)

a) Basic Account (continued)

The Joint Trust Agreement specifies a transitional period during which surplus assets or actuarial gains must be used to achieve the following objectives in the following order:

- Eliminate unfunded liability
- Rebalance member and employer contribution rates and provide specified benefit improvements when sufficient surplus assets allow simultaneous implementation
- Contribution rate stabilization reserve and Inflation Adjustment Account (IAA) - 50% of any additional surplus assets must be transferred to a contribution rate stabilization reserve and 50% must be transferred to the IAA to an aggregate of one billion dollars. The contribution rate stabilization reserve will be shared on an equal (50/50) basis in order to maintain or reduce future member and employer contribution rates.

After these transitional objectives have been achieved, the agreement describes the manners in which the board can elect to apply surplus assets so as to achieve over time an equitable sharing of the benefits of the surplus assets between members and employers.

The agreement describes that if at any time, an actuarial valuation indicates that increased basic contribution rates are required to fully fund the plan on a going-concern basis, the increase must be shared equally by members and employers.

b) Inflation Adjustment Account

No unfunded liability exists for the Inflation Adjustment Account, since the obligation for future indexing benefits is limited to the amount of the available assets in the account. As indexing is granted to retired members full funding for that granted indexing, on a net present value basis, is transferred from the Inflation Adjustment Account to the Basic Account, from which the pensions are paid. There is no minimum level of indexing required to be paid under the plan rules, nor is there any plan provision or intention to fund the Inflation Adjustment Account to any minimum level of future potential indexing.

MUNICIPAL PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

7. OBLIGATIONS FOR PENSION BENEFITS FOR FUNDING PURPOSES (CONTINUED)

b) Inflation Adjustment Account (continued)

The Municipal Pension Board of Trustees monitors the performance of the Inflation Adjustment Account and, at least annually, reviews the projected impact on the account of possible differing future economic trends. Such factors include inflation rates, real wage growth rates, real investment rates of return and group health benefit costs. This sensitivity analysis assists the board to identify, some years in advance of its possible occurrence, the point at which the Inflation Adjustment Account assets may cease to grow and beyond that, the point at which full indexing benefits may not be able to be granted. As long as there are contributions to the Inflation Adjustment Account, there will be some measure of indexing protection for retired members.

8. OBLIGATIONS FOR PENSION BENEFITS FOR ACCOUNTING PURPOSES

An actuarial valuation is performed at least every three years and its primary objective is to assess the financial position and adequacy of funding for the Basic Account of the plan as described in Note 7a. As part of the actuarial valuation the actuary also calculates values, for accounting purposes, for Basic Account assets as at, and pension liabilities accrued to, the financial statement date. For this purpose, contributions and benefits for future service are not included as they are for the valuation for funding purposes in Note 7a.

The Basic Account is the account from which the defined basic benefits of the plan are paid and from which any indexing that has been granted to retired members, is also paid. Future indexing benefits are not guaranteed within the plan provisions and are granted to retired members only to the extent that sufficient money is available from the Inflation Adjustment Account (IAA) to fund those benefits. As indexing is granted, the Basic Account receives from the IAA the necessary net present value funding for the granted indexing. Therefore accrued basic pension benefits, for valuation purposes, include the liability for all indexing granted to the date of the valuation, but not, as yet unknown, future indexing.

The latest valuation was made as at December 31, 2000, by Eckler Partners Ltd. Net actuarial assets in the Basic Account as at that date were $11,184 million ($11.2 billion) and liabilities for accrued basic pension benefits were $10,337 million ($10.4 billion). As a result, on an accrued benefit basis, there was a Basic Account surplus of $847 million. At the prior valuation, as at December 31, 1997, actuarial assets were $7,823 million ($7.8 billion); liabilities were $8,120 million ($8.1 billion) and there was an unfunded liability of $297 million. The next actuarial valuation will be as at December 31, 2003.

MUNICIPAL PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

8. OBLIGATIONS FOR PENSION BENEFITS FOR ACCOUNTING PURPOSES (CONTINUED)

The present value of liabilities for pension benefits accrued to the valuation date is determined using the projected benefit method prorated on service. Net assets are valued using five-year market value smoothing. For accounting purposes it is required that extrapolations between valuations be calculated and one has been done to December 31, 2002, using the long-term actuarial assumptions. Actuarial liabilities and net assets reflect the following long-term actuarial assumptions:

- annual investment return 7.25%
- annual salary escalation rate 4.75%

On that basis, the extrapolated surplus on an accrued benefit basis to December 31, 2002 is $926 million.

Extrapolations may not be reliable indicators of the next valuation results nor do they necessarily reflect the overall trend of results. Between valuations, actual wage increases, investment earnings and the incidence of retirements, withdrawals, etc. may vary significantly from the long-term assumptions used in the extrapolation.

No unfunded liability exists for the Inflation Adjustment Account, since the obligation for future indexing benefits is limited to the amount of the available assets in the account.

9. RELATED PARTY TRANSACTIONS

a) Administration Costs

Administration costs include general benefit administration costs, actuarial fees and board expenses. General administration costs incurred by the Pension Corporation are prorated and charged to each pension plan under its administration based primarily on the relative numbers of members in each plan. Included in benefit administration costs is $16.4 million of Pension Corporation benefit administration costs and in the accounts payable balance is $3.7 million due to the Pension Corporation for those costs.

b) Investment Management Costs

The bcIMC manages investments on behalf of the board and uses internal and external investment managers for this purpose. Total investment management fees for 2002 were $21.9 million (2001 - $19.8 million).

MUNICIPAL PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

10. SUPPLEMENTAL BENEFITS

The Supplemental Benefits Account is the account through which certain supplemental benefits are funded. For example, pension benefits which exceed the *Income Tax Act* (Canada) limits for registered pension plans are paid through this account. Certain group benefit coverage may also be provided for retired members through the account. The availability, type and level of this retiree group benefit coverage is contingent upon the availability of funds within the Supplemental Benefits Account to fund such benefits.

To the extent dental and extended health benefits are funded through the Supplemental Benefits Account, they are funded from employer inflation contributions. Up to and including October 2002 and to the extent medical service plan premiums were funded through the Supplemental Benefits Account, they were funded 50% from employer basic contributions and 50% from employer inflation contributions (from November 2002, the portion of medical service plan premiums funded, are funded from employer basic contributions).

11. COMMITMENTS

The plan participates in Private Placement and International Equity Pools managed by bcIMC. As at December 31, 2002, the Municipal Pension Plan's share of commitments (over the next several years) for future investment contracts in these pools is approximately $375 million.